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Statement to be Presented at Briefing
6 December 1956

File
"Accounting"
WMB

1. In order to understand the content and purpose of Budget Bulletin 57-5 and its attachment, "Improvement of Financial Management in the Federal Government," it is believed necessary to discuss each of the principal objectives included on page 2 of the bulletin which are as follows:

- a. Maintenance of accounts on the accrual basis, including the use of adequate inventory and property records
- b. Development of cost-based budgeting practices
- c. Review and appropriate revision of budget and accounting classifications for consistency and synchronization with organization units to the extent possible
- d. Development of supporting information by organizational unit where budget classifications do not coincide with the organization of the agency
- e. Simplification of allotment structure

2. Each of the five items listed are related to each other but it is believed that the one that must first be understood before the others are discussed and the one which may be the most important item is that dealing with "Cost-based budgeting," item b.

Cost-Based Budgeting

1. The term "cost-based budgeting" refers to the method of developing and preparing budgets based upon the estimated services, material, etc., that will be consumed and/or utilized during a fiscal year as contrasted with the present method of preparation based upon estimated services, material, etc., to be obligated (ordered or contracted) for a fiscal year. At the present time, the budget of this agency, as well as most other agencies, is developed by obtaining from individual components of the Agency the estimated obligations based upon prior years obligation experience and upon knowledge of the anticipated program. To change to a cost

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budget will require that the components of the agency submit estimates of goods and services they intend or plan to utilize during the fiscal year period rather than how much they plan to obligate, and the officials primarily responsible for budget planning and submission must be able to determine the amount of appropriation required, taking into consideration resources available, utilization requests, procurement lead time, etc. Under such a plan the Budget submission to the Budget Bureau and Congress would reflect anticipated costs (services and materials to be utilized), agency available resources (inventories, funds, anticipated undelivered goods, etc.), how such resources will be applied to meet anticipated costs and the resulting amount required to be appropriated.

2. In coordination with improved property records at headquarters and partial improvement of such records in the field, the Budget Division is considering methods whereby components of the agency may eventually submit their inventory usage needs. The Budget Division in coordination with Logistics, Commo, and Medical will use this data in attempting to determine the probable agency inventories available for application against such demands and what additional procurement may be required for supplementing budget year shortages or increase in inventory for future needs.

3. Until the agency's accounting records are developed to produce complete and accurate cost and inventory figures, the agency will not be able to comply with any demand for presentation to the Bureau of the Budget and the Congress of a cost-based budget. Thus the further development of the agency's cost and financial property accounting procedures to provide the necessary information is essential.

4. It was and still is the Hoover Commission's recommendation that appropriations for the Government be made based upon the value of goods

and services to be delivered and this approach may be adopted after agencies have satisfactorily demonstrated submission of budgets reflecting adequate cost data.

Accrual Accounting

1. This then leads us to the second important item of the five listed above, item a; and that is "Maintenance of accounts on the accrual basis, including the use of adequate inventory and property records." In order to prepare budgets on a cost basis, it is necessary for the accounting of an agency to be established in such a manner as to reflect resources available (funds, inventory, undelivered orders, etc.) and the cost by various components or users of resources. Most Government accounting systems provide for reflection of information as to total obligations, how much of such obligations have been paid, and the difference or unliquidated obligations. To comply with the Budget Bureau proposals, it will require that our accounts reflect the cost of services, material, etc., delivered (not necessarily paid for) and the value of the undelivered services or materials. Thus when components of the agency prepare their budgets, they would utilize cost data supplied from accounts to arrive at anticipated services and supplies to be used during a fiscal year period. The accounting records would be designed and utilized to disclose the resources available, such as inventory and unobligated appropriations for carry-over purposes. With this information the pertinent components of the agency, particularly Logistics, Medical, Commo, and Comptroller, would be able to determine the adjustments required to available resources which would be the appropriation to be asked for.

2. With respect to the accounting problem, we have already made progress toward the objectives of Budget Bulletin 57-5. For all practical

purposes at the present time, many of our operating costs are on an accrual basis, such as salaries. The most important link, however, is to establish an accounting system that will reflect costs such as procurement, transportation, and contractual services on an accrual or delivered basis. We have moved in this direction by developing the mechanics which will enable us to obtain procurement costs and financial inventory balances, but the installation is not complete.

Simplification of Allotment Structure

1. The third item which should be discussed, item c, is "Simplification of allotment structure." It has been the procedure of Government agencies to utilize allotments not only for control of funds but also to attempt to obtain cost. This has resulted in multiple allotment accounts principally to obtain cost rather than primarily for control purposes. The spread of funds over many accounts results in small allotments which require frequent adjustment. Also frequently the cost data desired is not obtained because items such as property issues (not being cash items) cannot be processed through the allotment accounts. The proposed "Simplification of allotment structure" would contemplate establishing fewer allotments for flexibility as well as control purposes. Costs can be obtained through an integrated cost accounting system, a principal part of which would be the further implementation of the present system of charging inventory costs to the component user.

Budget and Accounting Classifications

1. The fourth item for discussion is a joint consideration of item c, "Review and appropriate revision of budget and accounting classifications for consistency and synchronization with organization units to the extent possible," and item d, "Development of supporting information

by organizational unit where budget classifications do not coincide with the organization of the agency." These proposals concern the development of accounting classifications that record information in direct support of budget presentations and organizational units. Our present accountings structure does provide direct information by organization unit. Some organization unit obligations, such as DD/I Offices, can be applied in total to a major activity. In several instances, however, it is more practical and economical to utilize a statistical distribution of accounting data to support budgetary program presentations. For example, the accounting system records the obligations of the DD/P area divisions but the total of each must be distributed among three major activities. The total obligations of each office in the DD/S are distributed among the six major activities. Although our present systems comply with the Bureau of the Budget proposals, more effort and analysis will be required in an attempt to perfect the distribution by major activity.

2. In addition to the five points which we have discussed, Budget Bulletin 57-5 states that this improvement effort should result in an accounting system that will provide (a) full disclosure of financial results, (b) adequate financial reports for management purposes, (c) effective accountability and internal audit, (d) reliable accounting results and controls for budgeting and (e) suitable integration with the Treasury Department.

3. It is obvious from these statements that it is intended that the accounting shall be reliable and the results obtained for budget purposes must be accurate and dependable. The statement (c), "Effective accountability and internal audit" is interpreted by this Office to mean that the plan should provide for financial accounting which will establish a control

over accountable officers (those having custody of property and other assets) and that the accounting records should be so established and integrated with property records that internal audit will be facilitated. Our financial property accounting system is designed to accomplish this. Where it has been installed, the Office of Audit has been able to perform adequate audit; and where it has not been installed, such audits have not been feasible.

4. To summarize the results that the Budget Bureau and others hope to gain from this program for improvement of financial management, it is the desire of the Congress, the GAO, Budget Bureau, the Treasury Department, and the President that the Government improve its accounting and budgeting so that those persons managing the Government may present accurate and realistic budgets which will assist in balancing the budget and reducing costs to the tax payer. This can only be accomplished through sound accounting systems and practices since accurate budgeting depends upon accurate and informative accounting.

5. We in CIA have more responsibility thrust upon us than most other agencies due to the fact that our security problems preclude us from receiving the assistance and guidance that other agencies will receive from GAO, Treasury, and Budget Bureau. It is extremely important, therefore, that we do everything possible to comply with this program despite the fact that we may not be subjected to the insistent pressures from GAO, Budget Bureau, and Treasury that will be applied to other agencies.